



Adrian College

Taxable and Nontaxable Fringe Benefits

General

The United States Internal Revenue Service (IRS) has guidelines to determine whether items and services received by an employee from an employer are considered a taxable benefit to the employee. The determination of taxability is dependent on certain conditions. In general, to be **excluded** from taxation the item must be an award of tangible personal property that 1) does not include cash or a cash equivalent (including gift cards or certificates), 2) be based on the length of service in 5 year increments, and 3), be presented during a meaningful presentation.

Overall, employee fringe benefits (items like gift certificates, fruit baskets, game tickets, meals, clothing, trips, electronics, etc. are given to the employee by the employer) are presumed income to the employee, unless specifically excluded within the IRS' internal revenue code. Further, the IRS has determined that taxes **are to be withheld** on items and/or services given to employees **even when the employer did not purchase the item or service**, but distributes them with the intent of benefiting their employee(s), i.e., items donated from vendors passed on to your employees.

The College President or designee and/or Adrian College Senior Staff member or designee shall approve the purchase and/or distribution of items and/or services to employees, especially in instances where the item/service may be by IRS code taxable to the employee. For purposes of approval authority, the delegation by the College President or Adrian College Senior Staff member to his/her designee shall be in writing and retained for purposes of audit documentation. To help ensure proper accounting of employee benefits per Internal Revenue Code, employees are encouraged to contact the Business Office for counsel prior to purchasing any items to be distributed to employees (incl. students) with Adrian College funds regardless of funding source.

Purpose

Adrian College has adopted this policy for the following reasons:

- To ensure proper stewardship and use of College funds
- To ensure all employees and students are treated equitably on a consistent basis
- To reduce the risk of failure to meet compliance requirements set by outside granting agencies and regulatory groups, such as the Internal Revenue Service, etc.
- To maintain the reputation of the College in both internal and external perspectives

Prizes and Other Giveaways

Giveaways and prizes provided to employees for outstanding achievement, money saving suggestions, wellness incentives, marketing campaigns, competitions, etc. will be included in the employee's income and reported on their W-2. The dollar value of the award is subject to federal income tax withholding, state income tax withholding, social security and Medicare taxes. This includes giveaways to employees for charitable campaigns such as the United Way and includes any item, service or product deemed not to be de minimis, e.g. Further, the IRS has determined that taxes are to be withheld on items and/or services even when the employer did not purchase the item or service, but distributes the item or service as a pass through to the employee. In such an instance, please contact the Business Office for additional instructions.

College funds may not be used for the following purposes:

- Any Purchase that reflects unfavorably upon the College and its core values

- Personal gifts to faculty, staff, students, or vendors. Gifts/awards to student employees, faculty, staff, or vendors may have taxable income consequence and/or create reporting requirements. Prohibited gifts include, but are not limited to any and all forms of property, including cash, most gift certificates, and tangible personal property. *Non-cash gifts of de minimis value may be allowable. Please review the de minimis value section below for further definition.*
- Non-work-related departmental, school/college, or divisional luncheons (please refer to “Frequently Asked Questions” below), dinners, or parties/celebrations/receptions. Examples of such events include, but are not limited to the following:
 - Birthdays (including recognizing a group of employees whose birthdays fall within a single month) or anniversaries;
 - Childbirth or adoption, engagements, weddings, baby showers, housewarming, etc.

De Minimus Fringe Benefits

The IRS has determined some benefits can be de minimus in nature. To be a de minimus fringe benefit, the benefit must be **non-cash**, provided infrequently, be of nominal value and administratively difficult to account for in value and procedurally.

Awards like employee-of-the-month may qualify for de minimus treatment if the awards are limited to mugs, key chains, certificates, mentions of employee newsletters, etc. For purposes of this business procedure, Adrian College has defined de minimus as ten dollars (\$10.00).

Items like gift cards qualify as cash equivalents and therefore **cannot** be treated as de minimus. The IRS has not defined a monetary amount as being de minimus when cash or cash equivalents are involved.

Clothing

The IRS has determined that certain items purchased may be considered exempt (non-taxable) income to an employee if they are awarded as part of an accountable plan based years of service. Currently, Adrian College does not have an accountable plan for awards. However, in certain instances, protective clothing and uniforms may meet the criteria and be exempt from taxation.

1. Protective Clothing

Protective clothing should follow the US Office of Safety and Health Administration (OSHA) Code of Federal Regulations (CFR) (29 CFR 1910.132.d) with the employer making an assessment of the hazards of the workplace.

In such an instance where protective clothing is purchased the supervisor shall identify and justify the specific items of clothing that are required for the safety of the employee in performing the job. It is not enough that the clothing is distinctive in nature and low cost, it must serve as a matter of employee protection and safety under OSHA rules to qualify as exempt from taxation. Examples of such clothing might include face masks, heat resistant gloves, hard hats, or steel-toed work boots. Clothing may not be supplied as a basic living requirement and must be related to the specific employment functions and duties of the job. Said clothing when purchased shall be made in a cost effective manner.

2. Uniforms

Uniforms in the traditional sense (i.e., matching top and bottom often worn by mechanical, janitorial staff, or other service staff like UPS, Fed Ex, etc.) with the requirement to be worn on the job and only on the job that provide a professional and visual image recognition as the personnel perform their assignments may qualify as being exempt from taxation. In such an instance, the clothing should help provide safety and recognition for the employee, students and staff while on duty and serve as a link to security on campus. Examples of such uniforms might include service personnel in maintenance and operations or environmental services areas and campus security.

In order for the amounts to be nontaxable, work clothes and uniform allowance reimbursement must meet the following accountable plan rules:

- a. Be specifically required to be worn as a condition of employment
- b. **Not** be adaptable to general usage as ordinary clothing
- c. **Not** worn for general usage, but be for a specific job related duty where safety and protection is of concern (the clothing must not be suitable for taking the place of regular clothing).

Thus for purposes of visual identification and campus safety and protection, Adrian College has determined that Safety Department personnel may be provided clothing as a nontaxable benefit as a uniform when:

- a. the clothing is required to be worn daily as a condition of employment
- b. the clothing includes the employee's name, department and college logo, and
- c. the clothing is not to be worn outside of the place of employment as casual wear.

Clothing items that are not a part of the actual uniform and costing greater than \$10.00 cannot be considered de minimis. Such clothing is taxable to the employee even if the clothing is worn while at work, i.e., polo shirt and pant even if the same color do not meet the IRS requirements and do not include the employee's name, department and college logo and is not a requirement to be worn daily as a condition of employment.

Clothing not Exempt from Taxation

The purchase of clothing by a department for the purpose of professional image and visual recognition does not exempt the clothing from being taxable to the employee. When clothing is purchased for employees, the purchase shall have the following:

- a. explanation as to the business necessity for the clothing and explanation as to why multiples of the clothing are being purchased (required).
- b. explanation, approval and receipt retained and filed with the payroll document/s to substantiate the approval and serve as audit documentation.
- c. Copies of the payroll document/s and names of the employees and amount of purchased items reported to the payroll office for purposes of withholding applicable tax.

Regardless of purpose or the fund source, the purchase of clothing is to include the bona fide business purpose as to the necessity of the expense. The purchase of clothing shall be related to the specific employment function and duties of the job necessitating the wearing of the clothing versus purchased as an informal work uniform.

The payroll office is to complete the following steps to ensure applicable taxes are withheld as to the value of the item (benefit) given to the employee.

1. The Business Office (Purchasing) is to provide the payroll office a copy of the procurement document, i.e., purchase order, PCard receipt, or check request form on the items purchased. For purposes of tax calculation, determination as to the value of each item given to each employee and the total value of the award for each employee shall be compiled.
2. On the next available payroll, the Payroll Office shall enter the total dollar value of the taxable item(s) to each employee receiving the awarded benefit, i.e., polo shirt, wind breaker, etc. Clothing items deemed taxable will be taxed at 100% of the value (unit cost) of the item. Applying the gross amount of the item's value will enable the appropriate taxes to be withheld from the employee's pay and increase the taxable gross to the employee.
3. If an employee terminates without the amount being loaded on a paycheck, the employee's W-2 form will be corrected to reflect the taxable amount in taxable wages.